



JSC Express Technologies
The Group's Management Report

2017

The Group's Management Report

Introduction

This document incorporates the essential components related to the JSC Express Technologies (“the Company”) and its subsidiaries (together referred to as “the Group”), such as the review of the activities, achievements based on factual indicators, development outlooks, vision and future plans. It also describes the established standards of corporate ethics and the business risks that might impact the Group’s performance.

CEO’s Statement

I am pleased to present the Group’s management report. The purpose of the report is to demonstrate the range of our activities and our will to expand the existing business while ensuring the quality and efficiency.

Our resources are focused on the establishment of innovations, cost efficiency and safety. I am proud that within the Group and its affiliates we have a well-formed mission, the vision, which is based on high values, and corporate social responsibility.

Thank you for your interest; we are ready to deal with any challenge in order to gain our customers’, partners’ and employees’ trust and respect.

Business Overview

About Us

JSC Express Technologies was established under the Georgian legislation in 2007 and incorporates the subsidiary companies operating in the electronic payments industry.

The aim of creating the Group was to establish the advanced standards of revolutionary solutions and information technologies in the Georgian payment system. Our services enable clients to use modern payment systems, reduce operating costs, and improve risk management. Along with a customer-friendly approach, our advantage is the effective protection of the customers' personal data and their property.

The companies incorporated in the Group have been providing services to financial institutions, government agencies, telecommunications companies, SMEs and individuals since 2006.

The companies incorporated in the Group:

JSC Georgian Card - www.GeorgianCard.ge

Direct Debit Georgia LLC - www.DDG.ge

Metro Service + LLC – www.MS+.ge

Didi Dighomi Research Center LLC

The Group constantly introduces innovative services for clients and not only for them. The public widely uses services, such as software and banking applications for smartphones.

Business Overview (continued)

What We Do

ATM and POS terminal network management

The JSC Georgian Card services include systemic support and management of ATMs and POS terminals, including local networks and wireless units. The team of technicians is monitoring the operations of all the ATMs and POS terminals within the system in real time and ensures continuity and unity.

Transport fare collection automated systems

The Metro Service + LLC's transport fare collection system in municipal transport reduces operating expenses, optimises the revenue received from transport fare, increases profitability and travel comfort. The transport fare collection system, through the centralised clearing center can process all payments electronically making use of cash unnecessary, thus removes the need of daily encashment and need for passengers to stand in queue for paper ticket.

Customer-friendly software

We are focused on customer's awareness; provide consultations on the design and infrastructure of a new software product, as well as further support and communication. The customer support group is available 24/7.

Our team of engineers can create specifically tailored, stand-alone or integrated programs to solve the unique challenges of each client, including:

- E-commerce solutions;
- Mobile banking applications;
- Payment, information distribution and mailing apps for smartphones;
- Creation of internet-based platforms;
- Other payments, transport fee collection solutions.

Network status management

The Network Status Management Program created within the Group is a universal network monitoring system that monitors in real time the operational status of all ATMs and terminals within the customers, systems. For financial institutions, corporations, payments providers and payment network operators, the network status management is the best way to efficiently and economically manage the system monitoring, their data centers and information technology infrastructure, providing many benefits:

- Possibility to monitor payment devices;
- Real time monitoring of network devices;
- Quick and pro-active response to shutdowns and other technical faults.

Transaction Processing

The basic function of JSC Georgian Card as the processing center is to provide secure interconnections with affiliates and card holding merchants and other service providers, with an approach that is not only flexible and rapid, but also increases the value of functionality and comfort for the service provider and the individual card holder.

Our solution of the card transactions includes:

- Processing of operations;
- Management of ATM/POS terminal network;
- Purchase, supply and support of devices;
- Three-dimensional (3-D) safe operations;
- Fraud protection system;
- Trade facilities and card processing services.

A wide range of processing devices operate on Visa, MasterCard, American Express, UPI and Diner's Club debit and credit cards (including contactless), in particular, magnetic and chip card applications.

Business Overview (continued)

What We Do (continued)

Card personalisation

Within the Group we can print any quantity of personalised design cards. Through our multi-platform infrastructure and international partners, we offer our clients a convenient combination of innovative technologies and proactive services.

To ensure the customer post-sale support, we provide project management and consulting services, by means of which we can manage all processes related to the international payments with partners, card certification and licensing, select the equipment and supplier, issue cards, plan market maintenance and support of the card programs.

Multifunctional self-service terminals

The company “Direct Debit Georgia” incorporated in the Group ensures the search for locations of self-service terminals, their technical support and maintenance as well as accumulates the amounts paid by the user in terminals.

The self-service terminals available almost anywhere in Georgia, are tailored to demands of modern people and allow the access to any type of payable service cost in a short time and with small efforts. Payment services are provided for the following categories of service providers as well as for many others:

- Utility and cable TV providers;
- Mobile, telephone and internet operators;
- Taxes included in the state budget;
- Parking and transportation cost;
- Banking services such as deposits, credit and other payments;
- Charitable donations;
- Tickets for cinema, theater and other events.

This is just an incomplete list multifunctional services are updated frequently.

In 2016, Direct Debit Georgia LLC. won the competition announced by the Public Service Hall, which included placement of self-service terminals at the Public Service Halls all over Georgia. Since 2018 our cashier-operators serve customers at the Customs Clearance Zone. In addition, for many years now we have been supporting the City Hall/municipality transport fee payment services, which includes the receipt of the payments determined for the passengers through the self-service terminals.

The company also supports the self-service terminal network of JSC Bank of Georgia.

Specialised self-service terminals

Since 2017, Direct Debit Georgia LLC. has implemented a new project, which includes the specialised self-service terminals. Those terminals are intended for the companies that have high daily turnover in a form of cash payment. By depositing cash into the specialised self-service terminals at the end of the day, companies may avoid a long procedure of collection of money and its depositing on the accounts, save human resources and, most importantly, instantly carry the turnover of the day on their bank accounts.

At present, the specialised terminals are used by big petrol and liquefied gas filling stations in Georgia, such as:

- Gulf Georgia;
- SOCAR Georgia Petroleum;
- Neogas;
- Rompetrol NV.

Business Overview (continued)

What We Do (continued)

Cashier-Operators

Direct Debit Georgia LLC. has created a “one-stop” principle for providing the quality and fast service, which implies placement of cashier-operators at the Public Service Halls, Service Development Agencies, medical establishments, the offices of the KazTransGas Tbilisi LLC and Batumi Customs Clearance Zone.

One of these projects is the receipt of all state service payments at the Public Registry. This project started in 2006 and successfully continues up to now.

In 2011, the cash-desks of Direct Debit Georgia LLC. were placed at various medical institutions throughout the regions. The company is already operating at all clinics of the JSC Medical Corporation Evex. The project aims the expansion of the the cash-desks together with the network.

From March 2011 up to now, customs duty and other payment services are provided by Direct Debit Georgia LLC. at Batumi International Container Terminal LLC.

From 2011 up to now, Direct Debit Georgia LLC. has provided the payment services through its cashiers to the customers at KazTransGas Tbilisi LLC offices.

Our services are always in demand because we offer our customers the following:

- payment services to more than 300 providers;
- easy access to those providers through terminals and other payment channels;
- convenient and easy to use interface;
- affordable rent and installation costs;
- 24/7 customer support and assistance;
- continuous monitoring of the payment channels network

Our Experience

In 2006, Metro Service+ LLC. and Tbilisi Metro signed the contract that aims to provide transport fee collection and administration. Within the framework of the project Metro Service+ carried out modernisation of Tbilisi Metro services and infrastructure, including the system of card payments.

In 2009, Metro Service+ LLC. signed the contract with Tbilisi Bus, in frames of which 1400 cash machines and GPS/GPRS modules were installed in 700 buses, parallel data transmission system was introduced. The project provides transmission of the GPS coordinates of a bus to the transport company server.

Since 2009 the card refilling network system (TOP UP) has been developed based on the innovative top-up system in express payment machines. The 1500 terminals are located in Tbilisi and 1300 in the regions.

In 2009, Metro Service+ LLC. together with Magticom LLC implemented the first social transport project for students (Bali Card).

In 2011, the 10 year exclusive contract was signed with Tbilisi minibus management companies, in frames of which the card system was launched in up to 2000 minibuses.

In 2011, together with the Tbilisi City Hall and the transport company, the passenger voucherisation project was implemented, in frames of which 5 GEL for municipal transport fee payment were credited on the transport cards of up to 1.5 million passengers.

Business Overview (continued)

What We Do (continued)

Our Experience (continued)

In 2011 JSC Bank of Georgia released a universal card Express Card with the transport fee payment function. The holder of this card no longer needs to top up the transport card; the transport fee is already deducted from the bank account where the salary or other income is transferred. In addition, the owner of the Express Card can use bonus points for transport, which he or she has collected with various merchants.

In 2012 the card system was introduced at Rike-Narikala cable lift and in 2016 at the restored Vake-Turtle Lake cable lift.

In 2016, the modern card validators were installed in 143 new MAN buses and 130 old cash machines were replaced with new in Bogdan buses.

In 2016, the universal banking card, School Card, was issued with a transport function. In the same year, the universal bank stickers with the transport function were released.

Since January 2017, Batumi municipal transport has moved to the new card system, in particular, modern card validators have been installed in 150 buses. For control of payments, special devices were provided to the bus controllers and conductors. The modern equipped service center is arranged where standard passenger cards “Batumi Card”, as well as personalised cards are issued, on which the holder’s photo is applied. The payment system created in frames of MS+ transport project undergoes constant changes, updates and adaptations. Since 2006, up to 150 upgrades and changes have been made, including major changes to the tariff scheme:

- Launching the departure-based discounted system;
- Launching the travel-based discount system;
- Launching the time-based discount system.

Supporting up to 20 different types of cards has been implemented in Metro Service+ for various categories of passengers through the emission of bank cards as well as ordinary transport cards. The company has the highly qualified technical team, which in the shortest time ensures technical services of payment machines in Tbilisi and Batumi municipal buses and quickly responds to the faults. Metro Service+ is continually implementing procedures related to improving quality of service

Financial Overview

The Group is within the Bank of Georgia Group PLC, which is listed on the London Stock Exchange. Consequently, according to the founder’s demand, the accounting policy of the Group has been compliant with the IFRS from its establishment. In 2018, the first audited consolidated financial statements in accordance with the IFRS standards were published. The Group audit service was provided EY Georgia LLC. The published report includes the financial standing for the last three years. The short financial information of the Group is given below:

Consolidated Statement of Financial Position	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total assets	72,907	59,075	53,454
Total equity attributable to shareholder of the Group	32,255	29,524	29,485
Non-controlling interests	136	130	124
Total equity	32,391	29,654	29,609
Total liabilities	40,516	29,421	23,845
Total equity and liabilities	72,907	59,075	53,454

Business Overview (continued)

What We Do (continued)

Financial Overview (continued)

Consolidated Statement of Comprehensive Income	2017	2016
Total revenues	23,636	20,475
Total operating expenses	(21,081)	(20,636)
Operating profit/(loss)	2,555	(164)
Other financial items	235	98
Profit/ (loss) before income tax expense	2,790	(66)
Income tax benefit	-	36
Profit/(loss) for the year	2,790	(30)
Other comprehensive (loss)/income to be reclassified to the profit or loss in subsequent periods		
- (Loss)/gain from currency translation differences	(50)	75
Total comprehensive income for the year	2,740	45
Attributable to:		
- Equity holders of the parent	2,731	39
- Non-controlling interests	9	6

According to the data of 2017, the equity of JSC Express Technologies Group has increased by GEL 2.7 million, and the total income has increased by GEL 3.1 million.

Compliance with international standards

JSC Georgian Card is certified with MasterCard, VISA, AmEx, Diners Club and Union Pay International payment systems.

In order to protect customers and improve the payment security, as well as to minimise the probability of fraud, Georgian Card obtains the EMV standard for both contact and contactless cards. The standard is an additional security measure, which reduces the expenses, related to bank fraud, for its member banks.

JSC Georgian Card is one of the first processing centers in Georgia, which complies with the Payment Card Industry Data Security Standards (PCI DSS). From 2010 to date, it has been successfully passing the Global Payment Security Standards compliance audit. The regular and consistent compliance with the PCI DSS policy and procedures facilitates JSC Georgian Card to be a reliable partner for the member organisations, to ensure performance of safe transactions and to protect cardholders from unreasonable use of their data.

JSC Georgian Card is also a member of the VISA PIN Security Program, the audit of which ensures the confidentiality of the cardholder's identification number (PIN) cryptography/ encryption keys and other personal data while performing card operations. VISA PIN Security Certificate confirms that the infrastructure and the operation of the equipment connected in the system meets the international standards.

Our payment system functions properly and ensures the continuity of the operational processes with complete compliance with the security standards and procedures. Remoteness of servers and the system/data duplication/storage procedures are in full compliance with the payment system standards as well as the recommendations of the world's leading technological and information companies

Future Plans

In 2017 JSC Bank of Georgia won the tender announced by Tbilisi City Hall for the modernisation of the public transport fee payment system. Within the framework of the project, the transport fee payment system of all types of Georgian and foreign cards will be launched on Tbilisi Metro, buses and cable lifts. The municipal transport will be equipped with new cash machines and card reader validators, special mobile applications will be created for travel planning and tickets purchasing functions. Metro Service +, as the subcontractor of the Bank is responsible for the fulfillment of the tender terms and further operation. However, within the project, JSC Georgian Card and Direct Debit Georgia LLC will provide the support within the project. By the joint efforts of the companies integrated in the Group it will be possible to involve all bank cards of the international system in

Business Overview (continued)

What We Do (continued)

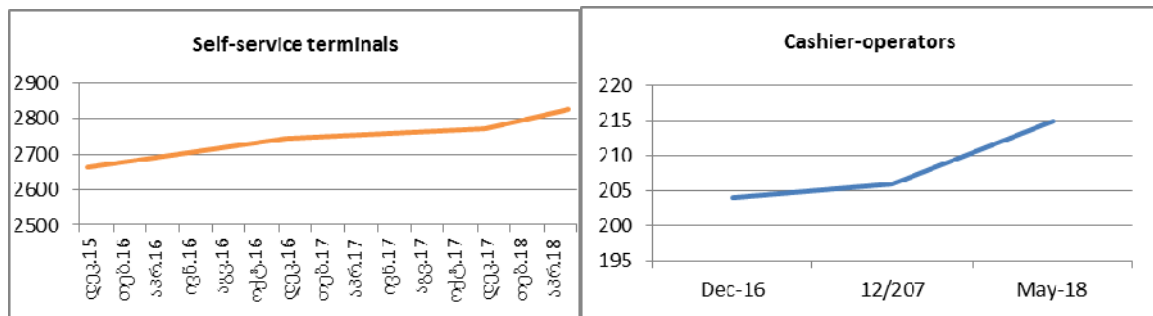
Future Plans (continued)

the public transport fee payment system, and purchase passenger cards and fill out the limit almost all over Georgia.

Direct Debit Georgia LLC has been actively increasing the number of service channels since 2006. In the future we plan to increase the service area throughout Georgia, providing all territorial entities with services that are inseparable from everyday life and are the guarantee of safe, secure and quick payment service for the majority of the population.

Over the past five years, the number of payment channels increased by about 10%, and the previous year's turnover was about 22% higher than the turnover of 2016. Our goal is to keep these indicators in terms of business growth, along with the increase in quality and efficiency.

Self-service terminals and cashier-operators' growth rate according to the data from 2016 to the first half of 2018:



JSC Georgian Card is continually updating services and introducing innovations. Our goal is to protect to the maximum extent all the entities involved in our system and to provide them with simple and comprehensive service. To fulfill this goal very year we undergo the security and other audits. We are ready to face new challenges and to introduce higher standards every new period.

In the future, the company intends to make the list of services offered to clients more diverse, as well as to expand our clientele and do our best endeavors to target all businesses with our innovative projects.

Risk Factors

Market risk is the risk of change of the value of financial instruments as a result of market factors, such as the fluctuations in interest rates and foreign currency exchange rates. The Group has a minor currency risk.

Liquidity risk means that the Group will not be able to timely cover all its financial liabilities originated in normal or stressful conditions. The liquidity risk of the Group is analysed and managed by the management. As of 31 December 2017 and December 31 2016, all financial liabilities of the Group were to be covered within 3 months, while the non-discounted repayment obligations provided by the contract were equal to their book value.

The Group has been always fulfilling its contractual obligations and has never experienced a default. The Group will fulfill the contractual obligations in the future.

Net cash flows from the Group's operating activities are increasing from year to year (2017 - GEL 17,517; 2016 – GEL 10,371).

Business Overview (continued)

What We Do (continued)

Fraud prevention

Along with the development of information technology, the types of crime have become more diverse. The damage to property may be caused as a result of fraud and unscrupulous behavior of consumers.

Information security

In the 21st century, a significant threat to all businesses is the increased cyber and phishing attacks. The financial sector is the priority target for the criminals, so we are aware of the ongoing attack attempts and introduce the highest standards of information security throughout the Group. The protection mechanisms include the cutting-edge and well-known products that are designed to protect internal network from external impacts, as well as the leak of sensitive information within the network.

For the purpose of monitoring existing devices, appropriate software is used to control each event generated in the Group's devices and consumer's PCs. Besides, the staff awareness raising training is often carried out in order to provide information security, and all employees have been provided with the strictly defined instructions on how to behave in any suspicious situation

Anti-money laundering practice

All the companies incorporated within the Group are trying to comply with international ethics standards and exclude any money laundering and terrorism funding.

The top priority of cooperation with us is to investigate partners' business, reputation and essential details, to prevent the turnover of illicit activity and in any suspicious case we appeal to the competent authorities for instructions thereof and adequate response.

The Group considers all requirements and recommendations of the National Bank and the Financial Monitoring Service of Georgia, actively cooperates with them and tries to contribute to the prevention of illicit income and the fight against terrorism. In this regard, we have not identified any illegal cases that have ever been carried out through our payment channels or our activities.

Corporate Management Report

The structure of the Group is maximally tailored to facilitating and making effective business activities. The companies are independent legal entities with independent managing bodies, but in case of necessity they join their activities for the implementation of important projects and missions. The person responsible for the Group's management is the CEO.

Information about the CEO

Irakli Kodua's career in the Group commenced in 2006. He also holds the position of the General Director at JSC Georgian Card and Director at Direct Debit Georgia LLC since 2016.

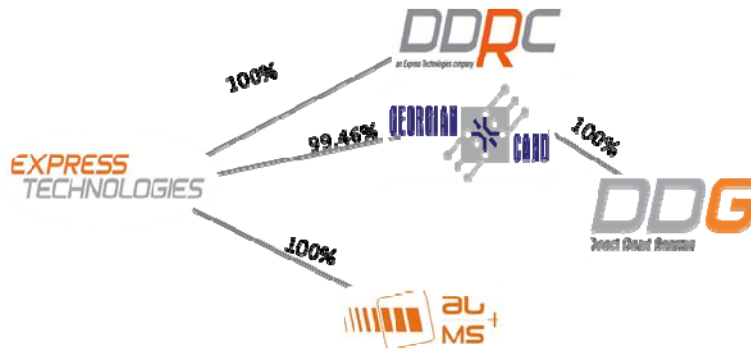
In 2011-2016 he was Deputy Director of JSC Georgian Card and in 2014-2016 Deputy Director of Direct Debit Georgia LLC. He has many years of experience in financial field.

Irakli Kodua holds the diploma of IT engineer and lawyer.

The Group Structure

The Group's main purpose is to invest and develop companies engaged in electronic payments platform in Georgia. For this purpose, four companies are incorporated in the Group. The main purpose of the holding is to support these companies.

The ownership structure of the companies within the holding is as follows:



The Group policies

In order to implement the corporate governance principles developed according to the international regulations and best practice, the Group has policies that determine the rules for the conduct of employees and for adequate response to any violation. The following policies are of particular importance:

Conflict of interest management policy

The purpose of this policy is to strengthen the rules of determining, managing and preventing the existing, potential and possible facts of the conflict of interest, to explain the issues related to the conflict of interest and to help the staff in its prevention and adequate response to it, namely as follows:

- to determine the situations in which conflict of interest may arise;
- to establish the procedures, mechanisms and systems for the detection, prevention and management of the conflict of interest;
- to protect the interests of the Group, its customers, employees, investors and suppliers by developing the respective measures to eliminate conflict;
- to ensure compliance with the regulations of the National Bank of Georgia.

Corporate Management Report (continued)

Conflict of interest management policy (continued)

The restrictions/prohibitions imposed for the prevention of the conflict of interest are as follows:

- activities outside the employer;
- kin relations between the employees;
- attitudes towards gambling;
- drug addiction;
- personal transactions.

Personal Data Protection Policy

The purpose of this document is to introduce and describe necessary processes and regulations according to the Law of Georgia on Personal Data Protection and the international standards, also to impose necessary restrictions on the employees in this regard and, at the same time, to protect their personal data from illegal and unreasonable use.

Information Classification and Management Policy

In order to improve the preventive and detective control over the use of information resources, it is necessary to create an architectural infrastructure for information, which implies the classification of information with the approach based on the risk assessment; also, determination of the respective responsible persons, sorting of information and information resources according to the level of confidentiality, development of other rules for access and use.

According to this policy, information is divided into the following four categories of confidentiality: “public”, “for internal use”, “confidential” and “top secret”. Information management is regulated according to those levels and includes the rules for labeling, moving, granting access to, storing and destroying the information.

Notification Management Policy

The purpose of the policy is to support the establishment of an environment in the Group, where any incompliance or violation is effectively identified and prevented. The people, employed at the organisation, are the eyewitnesses of the violations happening around them. According to the policy, the employing entity guarantees the anonymity of the applicant, whose application will be reviewed with full responsibility and by strict observance of confidentiality.

Review of the rights of shareholders and of the general meeting of shareholders and the rules of their exercise

100% of shares of the JSC Express Technologies are held by JSC BG Financial. Partners' rights and obligations are regulated by the entity's Charter, which is a publicly published document.

The Shareholders' Meeting is the entity's higher governing body that can enforce control on its own or through representative.

Non-financial Report

Business model overview

The Companies incorporated within the Group are registered under the National Bank of Georgia as payment system operators and payment service providers and, accordingly, are under its supervision. In this sector JSC Georgian Card is one of the leading processing centers in Transcaucasia, with only two payment system operators in Georgia.

Among the payment service providers Direct Debit Georgia LLC holds a leading position due to the scale of its activities. It should be noted that the services, offered by the company, are distinguished by their multi-functional and innovative character. Only the terminals of Direct Debit Georgia LLC allow making payments with the bank cards, also customers can refill the transportation card limits only through our kiosks and cashiers. As of 2018 the number of self-service terminals has reached 2500.

As for the tender announced for the modernisation of the public transport fee payment system won by Metro Service + LLC it has a 10-year actuality precondition.

Within the framework of the modern payment system, innovative reforms carried out by the Group are of systematic nature and the development of information technologies increases the range of performance, therefore, This is why JSC Express Technologies and the companies incorporated therein do not lose their relevance. .

Our team

According to the 2017 data, about 640 persons are employed within the Group. Out of a lot of candidates we choose the most motivated and committed people. Human capital plays crucial role in success of the Group's activities, so we try to create optimal conditions for effective labor and career development. The basis for our employee oriented approach is fairness, which we try to observe by providing adequate compensation, additional bonuses and by respecting diversity, which is necessarily characteristic to any broader circle of people.

We understand and undertake our responsibility before our employees, but in return we require from them fair and reasonable attitude towards their work, which is clearly indicated in our internal regulations and Code of Ethics.

Healthy work environment

It is noteworthy that since the beginning of our activities up to date, there were no cases of labor dispute filed against the Companies incorporated within the Group. We realise that our employees are the guarantee for our success, so we try to create equal development opportunities for everyone.

Our priority is to strictly protect the personal data of our employees and customers and the adequate risk protection mechanisms are subject to the periodic revision and update. The information on the personal data catalogs, kept in the Companies incorporated within the Group is available on official website of the Personal Data Protection staff.

Health and safety at the workplace

The legislation sets out minimum safety standards; we are trying to embrace internationally recognised best practices and to create a safe and healthy environment for our employees.

The Group's buildings are equipped with the fire protection infrastructure; also the trainings are delivered for the staff on the methods of prevention of accidents and on quick response during the natural disasters and unforeseen circumstances.

The business continuity management policy is created and the group of key personnel is determined, who are responsible for managing crisis situations.

Non-financial Report (continued)

Prevent corruption

Corruption and bribery, despite its form and type, are not allowed within the Group. We strictly evaluate any action and transaction that may be perceived as an unlawful influence on the decisions made in relation to the Group.

In order to regulate this area, the Group uses quite an extensive policy on “the management of the conflict of interest”, while a specifically defined structural unit carries out control to ensure that any employee or any action performed by the Group or within the Group is in compliance with this policy.

Persons responsible for the preparation and submission of reports

The CEO is the responsible person for submission of the Group’s Financial Statements and management report.